

COMMITTEE ON LANDS AND BUILDINGS

December 12, 2005

6:00 PM

Chairman Thibault called the meeting to order.

The Clerk called the roll.

Present: Aldermen Thibault, Roy, Gatsas, Osborne, Porter

Messrs.: R. Sherman, P. Borek

TABLED ITEM

On motion of Alderman Roy, duly seconded by Alderman Osborne it was voted to remove Item 3 from the table.

Discussion of the disposition of the Center of NH Parking Garage pending availability of reports.

Deputy City Clerk Johnson stated there was a report that was made to the Board regarding the status that the Committee was at, which has also been referred back to the Committee just for reference. I don't know if you want to discuss any items in public or if you want to go into a non-public session.

Chairman Thibault stated I don't think we need to go into non-public session. Randy, maybe you could give the Committee a little synopsis as to where we are at right now.

Randy Sherman, Deputy Finance Officer, stated the offer on the garage from JPA still stands at \$3,510,000. Again, that is for the 400 spaces that the City controls and to buy the balance of the lease for the other 600+ spaces. The appraisal that you received in public session supports this offer. If you use a 9% cap rate on the calculation it is actually a 20% premium to the City for the City's value. If you use a 6% cap rate, the \$3.5 million is right on target. If you look at what a third party would be willing to come in and pay, the \$3.5 million is over 10 times that value. I would say to you that the Center of NH parking garage has served its purpose. It was initially done by the City through the Housing Authority to spur the development of the office tower, the retail and the hotel. I believe it is now time to take the equity out of that structure and turn that equity in so that we can actually add to our parking inventory rather than maintaining the inventory that we

have. The lease that we have over at the Center of NH for those of you who have read it, you must admit it is pretty onerous. We are actually losing money on a per space basis under that lease. I would remind you that all of the capital that goes in to that parking garage is the responsibility of the City. There is no 60/40 split on that capital. The City eats all of that capital. The financial impact, if you do look at the 2005 you will see that there was a slight positive cash flow, however, I would like to add to that the costs that are not included directly under the Center of NH are Highway's administrative costs because they do oversee the capital items, Traffic's administrative costs, the Finance and Solicitor's costs and any costs incurred through banking and other costs such as the engineering consultant that we used over at the garage. Those are not included in that cash flow that you saw. The capital needs that we discussed last week that were estimated to be \$460,000, the engineer, HTA, has come back. They have updated that amount now that they have been in the garage and they estimate that the immediately capital needs are \$1.1 million, not \$460,000. That converts to about \$88,000 a year in debt service, which again will eat into that cash flow that you saw. By selling the garage we will add it back to the tax rolls and we believe that the tax revenues generated from the sale will more than exceed the cash flow that we are currently seeing from that facility. Paul just passed out a letter from Louis Vinios on the commitment that they are making to the 400 spaces and that they will retain those as public parking and continue those leases that are in place. We also have a commitment from them that they will continue to accept the club suite holders on hockey nights. The club suites have parking at the Center of NH and they have committed to continue to provide those parking spots free under this agreement.

Alderman Gatsas asked do you have that in writing.

Mr. Sherman answered we have that from...I believe it is in the original letter. I would have to go back and read the original letter. I would also say that the parking consultant has reviewed the situation and in the parking report he feels that the Center of NH garage is surplus property, can be sold and their recommendation is you take that cash, take the equity, roll it over and add to your inventory. So based on that the Finance Department, the Assessors, certainly Paul and I and the Traffic Department all would recommend to this Committee that you declare this property surplus and you authorize the Mayor to enter into a purchase and sales agreement.

Alderman Roy stated one of the questions I had that came to my attention over the weekend is what you have on the revenue and expense report here under Holiday Inn Lease, could we discuss...that went down from 2004 to 2005.

Mr. Sherman responded let me correct that. If you look at the top line where it says parking permits and you have \$169,416 those two lines need to be reversed.

The total is correct. They are on the wrong lines. If you take the \$169,416 and do the math on that it comes out perfect to the rates that the internal auditor, Kevin Buckley, provided to you last week. We did check those. The 2004 number is not exact because initially the rates that were being used in 2003 were incorrect and there was an adjustment in 2004, which made 2004 slightly higher than if you do the calculations.

Alderman Roy stated in looking at that same number, whether it is \$157,000 or \$169,000 it is my understanding that that payment is based on net tax rate. So hypothetically if our tax rate goes to 50% of what it is now in the \$14 or \$15 range that lease amount would drop considerably.

Mr. Sherman stated back in 2001 and 2002, the last time we had a revaluation, their rental rate actually dropped 9.4% because of the tax rate decrease.

Alderman Roy asked because of the way this lease was originally written.

Mr. Sherman answered correct.

Alderman Roy stated so if we did see through the revaluation a considerable drop in our net tax rate they would see almost automatically a decrease because it is based on net taxes.

Mr. Sherman responded correct.

Alderman Osborne asked with the Verizon situation do we have about another nine years that we have an obligation with them. Is it 9 or 10?

Mr. Sherman answered it is actually 11.

Alderman Osborne asked what does this amount to dollar wise. If we were to sell this we are still obligated how much money?

Mr. Sherman answered if you go...for 2004 the Center of NH generated \$370,000 of civic center revenue of which the City got 50% of that. In 2005 it was \$330,000 again of which the City got half. The amounts that we paid over to the civic center were in 2004 \$490,000 and \$462,000 in 2005. The Center of NH does not generate...again when we looked at that cash flow that was presented to the Committee that did not include any payments over to Verizon. What is happening is you are using that cash flow that you are generating at the Center of NH and the rest of it is coming from either other parking revenues in other venues like on-street, parking lots, wherever during civic center events or if that is insufficient it is coming from property taxes. What we are doing is by selling the garage you are

replacing the revenue that you are getting from the Center of NH with property taxes and you are avoiding all of those capital costs. So paying the civic center still ends up being the same. It is either coming from property taxes or it is coming from the other parking revenues that are generated on event night. If you recall, initially we had meters that went longer. We also had meters on weekends and we decided to roll all of those back. It is the weekends in essence when they are having all of their events so you are not generating...even if you look at the Center of NH you are not generating enough revenues at the Center to pay what you should be paying over at the Verizon.

Alderman Osborne stated putting everything into perspective, what are we gaining or what are we losing by selling it. If you put everything in perspective.

Mr. Sherman responded what you are gaining is you are eliminating...well one you are getting rid of a very onerous lease. Two, you are putting an asset back on the tax rolls. It served its purpose. You are not losing anything in the cash flow. What you are doing is you are gaining on the capital side of the operation because you now no longer have to maintain that asset. Again, a couple of years ago when we originally put this out to bid, they had estimated that we would need about \$400,000 or \$460,000 in FY07 for capital items. They now have come back and said it is not FY07 and it is not \$460,000 it is FY06 and it is \$1.1 million. In talking to the engineer from HTA he estimates that that level of capital improvement will be required over at that facility every 8-10 years.

Alderman Osborne stated myself and Alderman Thibault were here when that deal was being put together in the early 80's. When we first...I guess our name still sits on a plaque there outside of the Holiday Inn but anyway when that was put up it was put up for the hotel and the retail that was there and the office space. That is mainly what it was built for. We had no idea that the civic center was coming along and we were going to have a baseball stadium and all of this other stuff. I can see where it is a minus in my mind to because of upkeep. We are going to have to pay \$1.3 million or whatever to renovate this and get it back up to par and then so much every few years. I always thought it was better to be out of the real estate business anyway. I don't believe in the City being in the real estate business. I think we are there to collect taxes and not pay them in essence. The contracts that they had weren't too bad but then we got into amendments and whatever and now we seem to be losing money most of the years rather than making money.

Alderman Osborne moved that the offer be accepted.

Chairman Thibault asked, Randy, could you elaborate a little bit on...what are we going to get for taxes on that now. Do you have any idea?

Mr. Sherman answered I think we have all done our own calculations.

Stephan Hamilton, Assessor, stated it is hard for us to come up with a number because we are in the middle of a revaluation and we don't know what the tax rate will be but if we look at what a likely assessment would have been for this year, it probably would have generated in the range of \$120,000 to \$140,000 in taxes for that property.

Alderman Roy asked while you are up here, Steve, when the Verizon was brand-new there were a lot of discussions about parking and at that time I believe a lot of people thought that people would not open private lots around the Verizon. Maybe that was just my take on it but since the Verizon has opened you see a lot more \$10, \$15, \$20 parking spots at gas stations and hair salons around the Verizon. Would those all be captured in this year's revaluation?

Mr. Hamilton answered one of the data elements we are asking the revaluation company to collect downtown is the number of available parking spaces so we can try to get a handle on it.

Alderman Roy asked so when a property across from the Verizon goes through the revaluation process if they are operating as a gas station/parking for events will their evaluation be done just on the gas station or as all businesses taking place on the premises.

Mr. Hamilton answered our intention is to try to gauge the amount of economic potential on the site considering the parking. We have asked Vision to collect the number of available parking spaces on every property downtown so that we can get an idea of that.

Alderman Roy asked and Randy your discussion earlier regarding additional parking revenues, did that include any of that tax base that would be captured.

Mr. Sherman answered no.

Alderman Roy stated so there is a small amount of tax base that we will be capturing on those businesses that was not expected during the 2001 revaluation. Is that accurate?

Mr. Hamilton answered yes.

Alderman Gatsas stated I think it is alarming that when I take a look at the expense reports that we the City have allowed somebody for the last however many years

they have maintained a garage and taken a look at it and when you want to go through that list I want to have somebody do an analytical analysis that the lease allows them for a \$2,600/year telephone bill. I want to see where the lease allows them for tires. I want to see where the lease allows them for automobile repair. I don't think that the City has been treated fairly. I think it is malfeasance that we have City employees that have not looked at that contract, looked at these expense reports and not gone back and done an audit. Somebody needs to explain to me and I guess maybe the Finance Department can tell me what is the difference between management services and service agreement. What are those two different items and what are they for?

Mr. Sherman responded the first thing I would say is we have done an audit. I believe you were told that last week.

Alderman Gatsas asked so these items were allowed by the lease.

Mr. Sherman answered yes.

Alderman Gatsas stated well somebody needs to show me because I can't see where it says telephone usage for \$2,600.

Mr. Sherman responded, Alderman, they are allowed to operate the garage.

Alderman Gatsas asked is there a phone that directly rings there for garage services.

Mr. Sherman answered I didn't do...you would have to ask the internal auditor who did the audit. Yes, he did audit the lease. He audited it as far as the expenses and then the revenues. I can tell you that he did go through the agreements. They are over there operating that garage. If they have trucks or if they have vehicles yes I would expect there to be vehicle maintenance and I would expect there to be tires and fuel and everything else that is associated with that. They do have mechanical equipment over there. That is where their service agreements are. They have operating gates. They have ticket spitters and whatever else it takes to operate a garage. That is where your service agreement is going to be. They also run an office over there. Whether there is a copier service agreement or not I couldn't tell you the details of it because I didn't do the audit.

Alderman Gatsas asked wouldn't you agree, Mr. Sherman, that when you take a look and somebody tells you they spent \$299 on gas and diesel fuel and the next line below it that tires and batteries are \$199 does that sound like you could have done a lot of mileage on \$299 worth of fuel.

Mr. Sherman replied I do not have the detail to every one of those line items here this evening. I apologize but if I had had advance warning on it I would have gone back and looked at each one of those and I would have made sure that Kevin Buckley and Tom Lolicata were here because the contract is under Tom's department.

Alderman Gatsas stated well let's move on to the next issue. The City pays the civic center roughly \$490,000. Aren't those the numbers you gave us?

Mr. Sherman responded that was the 2004 number. The 2005 number was \$460,000.

Alderman Gatsas asked so that number is paid for by the City whether the revenue comes from that garage or general fund dollars, that is what they pay.

Mr. Sherman answered we pay based on attendance.

Alderman Gatsas stated also within that there are 125 parking spaces that are available for every event to season club seat holders.

Mr. Sherman responded it is 106 and they deduct that from the attendance.

Alderman Gatsas asked but they are available – free spots in that garage.

Mr. Sherman answered yes up to a certain point and then they get leased. The garage is not full on event night.

Alderman Gatsas stated the number that I am looking for, is that in the agreement. I don't remember seeing that in the agreement. Is it in the agreement with JPA?

Mr. Sherman responded what Paul is reminding me is that was a verbal commitment that he made and we would put that in the purchase and sale.

Paul Borek, Economic Development Director, stated it was one of the very first verbal commitments that we requested when we were negotiating but it is not in one of these letters just yet.

Alderman Gatsas asked so when I look at the \$148,000 worth of revenue at the bottom, if we took the \$3.5 million and put it in the dedicated fund, which we don't get the interest from that goes into the general fund, then we would have to find an additional \$148,000 in revenue to pay for the Verizon lease that we have of the \$462,000.

Mr. Sherman answered no. You would have property taxes.

Alderman Gatsas asked at \$462,000. I think last week Alderman Porter did some quick math and he said the best we were going to get was \$60,000 or \$70,000.

Mr. Sherman answered if you look at the \$462,000 at best in 2005 only \$148,000 of that came from the Center of NH. By selling the garage you are getting property taxes and you are getting investment earnings on that \$3.5 million. That will more than exceed the \$148,000 that you are currently receiving. You are also reducing traffic administration costs, engineering costs, Highway's costs, and finance costs. There are other costs that get reduced along the way that are not part of that \$148,000.

Alderman Gatsas asked why don't you have those on the next page when you show us the cost of the garage.

Mr. Sherman answered I would love to, Alderman, but if you read the parking study you will see that those numbers do not exist. That is part of the problem that you have with your parking system. It is so fragmented that those numbers don't exist.

Alderman Gatsas stated well I would think that maybe this Committee should make an offer that they go back and they would have to pay for the next 10 years \$100,000 to the civic center to reduce our costs. That would put you in at somewhere around \$4.5 million and I think that is a fair and equitable deal. Obviously what they are telling you on the front page of the new thing that you just gave us is that those 400 spaces will be honored at market rate leases.

Mr. Sherman responded that is not their proposal.

Alderman Gatsas replied no but I think that should be our counter offer or are we not allowed to counter.

Mr. Sherman stated last week we went back to get the commitment for the 400 spaces. That was the only discussion that we had last week.

Alderman Gatsas stated I think if we are looking to protect the best interest of the taxpayer we should have the ability to make a counter offer.

Mr. Sherman replied your best interest is in the staff opinion to accept the offer that is on the table.

Alderman Gatsas asked then tell me what the discount is to do an exchange. What is that worth to the buyer?

Mr. Sherman answered to the buyer I could not tell you. To the City, zero.

Alderman Gatsas asked but to the buyer it is worth something.

Mr. Sherman answered that is why he is willing to pay \$3.5 million. To the City, it is worth zero.

Alderman Porter duly seconded the motion to accept the offer.

Deputy City Clerk Johnson stated I would like to clarify what the motion needs to be. We need to recommend that the property be declared surplus, authorize a purchase and sales subject to the conditions that have been provided, accept the reports that have been submitted by the City departments including the Assessor's recommendation of the outside appraisal, which was conducted. That is the whole motion.

Alderman Osborne agreed to amend the motion as stated by the Clerk. Alderman Porter duly seconded.

Alderman Gatsas asked why would it not be in our best interest for us to make a counter offer that some of that revenue be collected and sent to the civic center. Do we think we have people before us that have negotiated the best deal that the City can possibly get?

Mr. Sherman answered in valuing the asset those revenues were taken into consideration. If you want to go back and change that, the offer price is going to decrease.

Alderman Gatsas responded I think it is a simple question to go back and make a counter offer.

Chairman Thibault called for a vote on the motion. Alderman Gatsas requested a roll call vote.

Alderman Osborne stated I have one question for Alderman Gatsas. This \$100,000 you are talking about is it per year?

Alderman Gatsas responded yes it would be per year.

Alderman Osborne asked and the timeline.

Alderman Gatsas answered it would be for the next 10 years.

Alderman Gatsas voted nay. Aldermen Osborne, Porter, Roy and Thibault voted yea. The motion carried.

There being no further business, on motion of Alderman Roy, duly seconded by Alderman Osborne it was voted to adjourn.

A True Record. Attest.

Clerk of Committee